

# Chapter 13

## MNCs' Corporate Social Responsibility

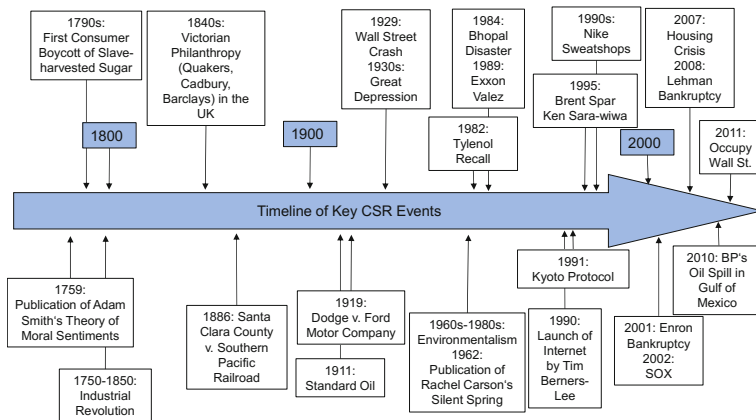
The interface between business and society is changing in a world in which new environmental and social risks are emerging and the challenge of sustainability is ever more apparent. The roles, responsibilities and functions of business, especially with regard to MNCs in the context of globalisation, have to be redefined. This discussion has led to the development of the concept of corporate social responsibility (CSR) over the past few years. This Chapter presents models and instruments to explore and organise CSR within MNCs.

### Loss of Confidence, the Challenge of Responsibility and Sustainability

Global companies and even large local companies are suffering a crisis of confidence. Figure 13.1 shows several incidents that have stimulated the evolution and development of Corporate Social Responsibility (CSR).

Events in the Evolution and Development of CSR

Figure 13.1



Source: Adapted from Chandler/Werther 2014, p. 15.

Contemporary society expects sustainability and responsibility from its companies, which means that the traditional role of companies ("the only business of business is to do business," ascribed to *Milton Friedman*) has to be rewritten.

Companies are required to act "sustainably", i.e., to act responsibly in a wider context that goes beyond the predominantly economic view (Jonker/De Witte 2006, p. 2). Sustainability in this context refers to the (external) environment and demands care in using resources, such as water, raw materials, energy, etc. Companies are not the only entities held responsible for the environment. The new normative perspective includes topics such as human rights, child labour, etc. Organisations have to meet the needs of a wide range of internal and external *stakeholders*. A stakeholder can be defined, according to Freeman (1984, p. 46), as "any group or individual who can effect or is affected by the achievement of the organization's objectives". Stakeholders include customers, suppliers, stockholders, employees, banks, non-governmental organisations (NGOs) and society in general.

## Corporate Social Responsibility and the Stakeholder View

### Historical Roots

The concept of corporate social responsibility has gained importance over the past few years. In academic discussion, however, it is by no means a new idea: The concept itself and the debate about CSR date back to the 1930s. For example, Dodd (1932, p. 1149) argues that managers are not only responsible to their shareholders but they are also responsible to the public as a whole because a company is "permitted and encouraged by the law primarily because it is a service to the community rather than because it is a source of profit to its owners". The concept has developed since then, and many more facets of responsiveness have been added to the understanding of CSR.

Schuler and Cording (2006, p. 544) point out that CSR is "a voluntary (i.e. not directly mandated by government regulation) business action that produces social (third-party) effects". Therefore, the general concept includes three main domains:

- social outcomes
- market and social behaviour
- voluntary behaviour.

### Triple Bottom Line Concept

Under this approach, firms are responsible for their social and environmental effects on society, in addition to generating profits. On the most basic level, the *triple bottom line concept* (TBL) claims that companies should not only measure their success through financial performance (e.g. profits or return on investment) but need to take into account their impact on the broader economy, the environment and general society (Savitz/Weber 2014, p. 4; see Elkington 1997).

*Profit, People,  
Planet*

#### Measures to Capture the Triple Bottom Line

Table 13.1

Economic	Environmental	Social
sales, profits, ROI	pollutants emitted	health and safety record
taxes paid	carbon footprint	community impacts
monetary flows	recycling and reuse	human rights, privacy
jobs created	water and energy use	product responsibility
supplier relations	product impacts	employee relations

Source: Adapted from Savitz/Weber 2014, p. 5.

Company success, in this view, has to be measured in a multidimensional way, capturing mainly these three areas (see Table 13.1). In a helpful mnemonic, the triple bottom line concept refers to “profit, people, planet”, and hence can be seen as the “PPP-approach”.

### Corporate Social Responsibility Pyramid

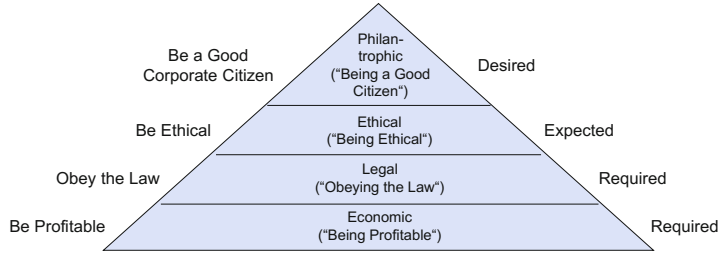
Carroll (1979; 1991) developed the widely used “*corporate social responsibility pyramid*” (see Figure 13.2).

According to this concept, corporate social responsibility is conceptualised as four expectations that society has of organisations:

- the economic domain (“being profitable”)
- the legal domain (“obeying the law”)
- the ethical domain (“being ethical”)
- the philanthropic domain (“being a good citizen”).

Figure 13.2

Corporate Social Responsibility Pyramid



Source: Carroll 1991.

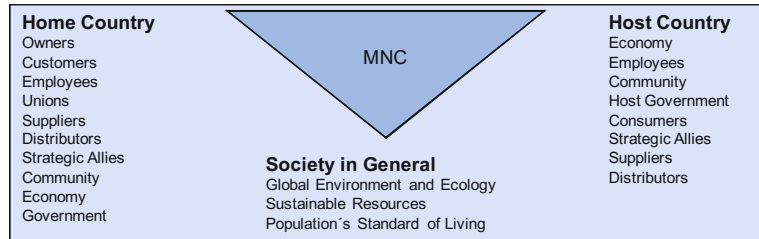
Stakeholder Map for an MNC

Stakeholders and Shareholders

The concept of CSR is seen within the *stakeholder approach*. According to this view, a firm should not only maximise profit for *shareholders*, but should satisfy the aspirations of all stakeholders (Mellahi/Frynas/Finlay 2005, p. 107).

Figure 13.3

MNC Stakeholders



Source: Adapted from Deresky 2014, p. 62.

Figure 13.3 shows the wide variety of stakeholders, all of which have different issues and concerns. Multinational firms have to pay attention not only to the stakeholders in their *home country* but also to those in a multitude of *host countries*.

## CSR Management Model

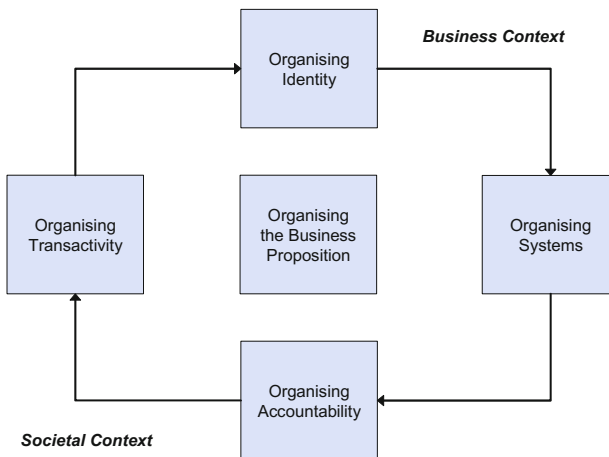
Companies' CSR activities or practices can be classified in different ways (see, e.g., Schramm-Klein et al. 2014). According to Sen and Bhattacharya (2001), CSR activities can be categorised into six broad fields:

- community support (e.g. health programmes, educational initiatives)
- diversity (e.g. family, gender or disability-based initiatives)
- employee support (e.g. job security, safety concerns)
- environment (e.g. waste management, pollution control, animal testing)
- non-domestic operations (e.g. overseas labour practice, operations in countries with human rights violations)
- product (e.g. product safety, antitrust disputes).

The CSR activities or practices of a corporation have to be embedded in the organisation, i.e., linked to the business proposition and every added value in the value chain (Jonker/De Witte 2006, p. 4). Based on this approach, an *integrated management model* can be developed (see Figure 13.4).

### CSR Activities

*The CSR Management Model*



*Figure 13.4*

Source: Jonker/De Witte 2006, p. 5.

The starting point of the CSR model is a company's *business proposition*, comprising vision, mission and overall competitive strategy. Four interlinked domains have to be defined under the umbrella of the business proposition in either a business or competition context and societal context (Jonker/De Witte 2006, p. 6):

- *Organising identity*: This covers issues such as core values, branding, image and corporate identity.
- *Organising systems*: This refers to internal and external communication and the design of primary and supporting processes.
- *Organising accountability*: This includes auditing, reporting, monitoring performance and standards.
- *Organising transactivity*: This includes developing partnerships, organising dialogues, etc.

## International Codes of Conduct

For *organising accountability*, a considerable number of organisations have developed codes of conduct which provide consistent *guidelines* for Multinational Corporations, for instance in production and sourcing.

## Business Social Compliance Initiative

### BSCI

As an example, the *Business Social Compliance Initiative* (BSCI) of the European Foreign Trade Association (FTA) can be used to demonstrate how retail and wholesale companies follow codes of conduct, implement and run audits and react through corrective actions in global purchasing:

- The BSCI Code of Conduct is built on internationally recognised labour standards to protect workers' rights, in particular the *ILO Core Labour Conventions*.
- The practical implementation of the code is controlled by independent auditing companies accredited by the international organisation *Social Accountability International* (SAI), which issues the SA8000 standard. To control the BSCI process, the members share the results of their audits in a common database. This also avoids multiple audits, thus reducing *audit fatigue*.
- The BSCI is based on a *development approach* and does not rely solely on audits. It aims to continuously improve the social performance of suppliers, encouraging them to apply for SA8000 certification. The BSCI devel-

ops follow-up measures such as implementation controls and training measures in order to support suppliers.

- The whole BSCI process is accompanied by local and European stakeholder networks, which bring their expertise to the initiative and help to ensure the long-term local ownership of the process. Cooperation with governmental authorities, trade unions, NGOs and associations also facilitates social acceptance and independence of the system.

### Social Accountability 8000 (SA8000)

The Social Accountability Standard 8000 (SA8000), published in late 1997 and revised in 2008 and 2014, is a credible, comprehensive and efficient tool for assuring human rights in the workplace. The SA8000 system includes (Social Accountability International 2014):

- *factory-level management system requirements* for ongoing compliance and continual improvement
- independent, expert *verification of compliance* by certification bodies accredited by Social Accountability Accreditation Services (SAAS)
- *involvement from stakeholders* including participation from all key sectors in the SA8000 system, workers, trade unions, companies, socially responsible investors, non-governmental organisations and government
- *public reporting* on SA8000 certified facilities and Corporate Involvement Programme (CIP), annual progress reports through posts on the SAAS and SAI websites
- *harnessing of consumer and investor concern* through the SA8000 Certification and Corporate Involvement Programme by helping to identify and support companies that are committed to assuring human rights in the workplace
- *training partnerships* for workers, managers, auditors and other interested parties in the effective use of SA8000
- *research and publication* of guidance in the effective use of SA8000
- *complaints, appeals and surveillance processes* to support the system's quality.

The SA8000 Standard is based on the *international workplace norms* of the *International Labour Organisation (ILO) conventions*, the *Universal Declaration of Human Rights* and the *UN Convention on the Rights of the Child*. The main elements of the SA8000 standard are (Social Accountability International 2014):

#### Overview

#### SA8000 Elements

- *Child Labour*: No workers under the age of 15; minimum age lowered to 14 for countries operating under the ILO Convention 138 developing country exception; remediation of any child found to be working.
- *Forced or Compulsory Labour*: No forced labour, including prison or debt bondage labour; no holding of deposits or workers' identity papers by employers or outside recruiters.
- *Health and Safety*: Provide a safe and healthy work environment; take steps to prevent injuries; regular training of workers in health and safety; system to detect threats to health and safety; access to bathrooms and potable water.
- *Freedom of Association and Right to Collective Bargaining*: Respect the right to form and join trade unions and bargain collectively; where law prohibits these freedoms, facilitate parallel means of association and bargaining.
- *Discrimination*: No discrimination based on race, caste, national or social origin, religion, disability, gender, sexual orientation, family responsibilities, union or political affiliation or age; no sexual harassment.
- *Disciplinary Practices*: No corporal punishment, mental or physical coercion or verbal abuse.
- *Working Hours*: Comply with the applicable law but, in any event, no more than 48 hours per week with at least one day off for every seven-day period; voluntary overtime paid at a premium rate and not to exceed 12 hours per week on a regular basis; overtime may be mandatory if part of a collective bargaining agreement.
- *Remuneration*: Wages paid for a standard work week must meet legal and industry standards and be sufficient to meet the basic needs of workers and their families; no disciplinary deductions.
- *Management Systems*: Facilities seeking to gain and maintain certification must go beyond simple compliance to integrate the standard into their management systems and practices.

## CSR and Profitability

### Conflicting Results

Many studies have addressed the impact of CSR activities on companies' performance, focusing, among other things, on companies' market value or corporate financial performance. Despite the number of studies into this relationship, there is still limited understanding of whether and how CSR actions have a positive impact on firms' performance. This is mainly due to



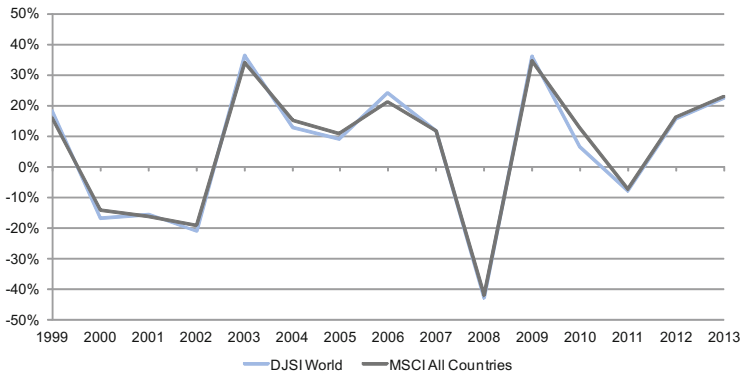
the *conflicting results* of these empirical studies. Several scholars show that the returns on CSR activities are positive in some studies but insignificant or negative in others (see Schramm-Klein et al. 2014 and Aguinis/Glava 2012). Pelozo (2009) argues that these differing results are mainly due to the lack of consistency regarding the conceptualisation of the CSR construct and the variability in measures used to capture financial performance across different studies.

For example, Figure 13.5 illustrates a comparison between the development of the Morgan Stanley Capital International Index (MSCI World), which includes 1,500 stocks in 23 developed countries worldwide with no expressed commitment to sustainability, and the Dow Jones Sustainability Index (DJSI World). This index includes more than 330 global companies that are committed to sustainable development. This comparison shows a (modest) advantage in total return for the second group. “Companies that balance the interests of multiple stakeholders do as well or better than their peers when it comes to financial performance” (Gossen 2007, p. 17; see also Scholz/Zentes 2006, pp. 288-300).

*DJSI World  
vs.  
MSCI World*

#### *Development of DJSI World and MSCI World*

*Figure 13.5*



Source: Robecosam 2014.

Environmental responsibility is a measure increasingly used in *public rankings* of companies. For example, Table 13.2 shows the “*Newsweek Green Ranking*” that ranks world’s biggest companies according to their sustainability. These rankings underline the growing public interest in companies’ environmental and social activities.

*Sustainability  
Ranking and  
Reporting*

Table 13.2

## Newsweek Green Ranking: World's Greenest Companies

Rank	Company Name	Industry Group	Energy Productivity	Carbon Productivity	Water productivity	Waste Productivity	Reputation	Newsweek Green Score
1	Vivendi	Telecommunication Services	73.3%	67.8%	97.6%	82.9%	87.7%	85.3%
2	Allergan	Pharmaceuticals, Biotechnology	72.2%	85.2%	61.1%	82.0%	100.0%	85.1%
3	Adobe Systems	Software & Services	82.7%	87.1%	99.2%	91.9%	51.4%	84.4%
4	Kering	Consumer Durables & Apparel	67.7%	70.2%	81.5%	82.2%	90.1%	83.6%
5	NTT DOCOMO	Telecommunication Services	81.7%	57.7%	90.5%	90.6%	100.0%	83.1%
6	Ecotab	Materials	73.2%	80.1%	84.3%	59.6%	90.1%	82.6%
7	Atlas Copco	Capital Goods	78.0%	89.4%	81.9%	87.4%	58.7%	77.2%
8	Biogen Idee	Pharmaceuticals, Biotechnology	69.2%	82.7%	84.5%	97.0%	53.4%	75.7%
9	Compass Group	Consumer Service	74.3%	69.3%	91.3%	83.9%	87.4%	75.3%
10	Schneider Electric	Capital Goods	73.0%	71.9%	79.5%	68.0%	57.0%	75.3%
11	Centrica	Utilities	57.4%	82.2%	58.5%	82.6%	65.6%	75.2%
12	Kone	Capital Goods	73.6%	63.9%	69.5%	59.4%	72.2%	74.4%
13	Hyundai Mobis	Automobiles & Components	85.7%	94.9%	72.2%	53.6%	81.7%	72.3%
14	Skandinaviska Enskilda Banken	Banks	66.6%	92.3%	66.6%	53.3%	51.7%	72.1%
15	Christian Dior	Consumer Durables & Apparel	58.5%	67.6%	36.3%	50.5%	100.0%	71.9%
16	Bayerische Motoren Werke	Automobiles & Components	75.0%	87.5%	83.6%	82.2%	11.0%	71.4%
17	Adidas	Consumer Durables & Apparel	81.8%	90.0%	84.3%	81.7%	3.6%	71.4%
18	Cardinal Health	Health Care Equipment & Services	75.5%	70.1%	81.9%	64.6%	61.0%	71.0%
19	Itau Unibanco Holding	Banks	59.6%	90.6%	49.4%	56.9%	62.1%	70.9%
20	Baker Hughes	Energy	75.4%	74.9%	60.8%	14.1%	85.3%	70.8%

Source: Newsweek 2014.

## CSR and Corporate Governance

Corporate social responsibility is an important part of *business ethics*. Besides the responsibility towards the environment and the observance of human rights, other ethical issues include the appropriate moral behaviour with regard to *bribery* (corruption), especially in the international arena of competition (see, e.g., Deresky 2014, pp. 71-74), and good and responsible *governance*.

*Corporate governance rules* clarify the rights of shareholders with regard to the general meeting (of stockholders), the supervisory board, and the management board, they establish guidelines for *transparency* and the treatment of *conflicts of interest* in order to promote the *trust* of investors, customers, employees and the general public in the company's management and supervision.

For example, the "German Corporate Governance Codex" comprises the following rules concerning these conflicts with regard to the supervisory board:

- Each member of the Supervisory Board shall inform the Supervisory Board of any conflicts of interest which may result from a consultant or directorship function with clients, suppliers, lenders or other business partners (Article 5.5.2).
- Advisory and other service agreements and contracts for work between a member of the Supervisory Board and the company require the Supervisory Board's approval (Article 5.5.4).

## Conclusion and Outlook

Under a variety of headings, such as corporate social responsibility, corporate citizenship, stakeholder engagement or corporate governance, lively debates have emerged worldwide about the roles, functions and balance of and between institutions in contemporary society. In this context, the acceptable *social behaviour* of companies is being redefined in order to achieve a new *societal balance*.

This is of great importance for MNCs, which operate not only in their developed home country, but also in a multitude of host countries, frequently in less developed (transition) countries with low wages and low standards of environmental and labour conditions.

*Ethical behaviour* of MNCs, in the sense of corporate social responsibility, raises the problem of potential competitive disadvantages due to the *opportunistic behaviour* of competitors. *Non-compliance* with social and environmental standards can lead to advantages in costs and therefore better competitive positions in the global arena.

This opportunistic behaviour is probably a short-term approach, because corporate social responsibility is an investment in the competitiveness of companies, true to the motto "What is good for society, is also good for business" (Jack Welch, the former CEO of *General Electric*).

*German Corporate Governance Codex*

*New Societal Balance*

*Opportunistic Behaviour*

### Further Reading

CHANDLER, D.; WERTHER, W. (2014): Strategic Corporate Social Responsibility: Stakeholders, Globalization and Sustainable Value Creation, 3rd ed., Thousand Oaks, SAGE Publications.

PORTER, M.E.; KRAMER, M.R. (2006): Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility, in: Harvard Business Review, Vol. 84, No. 12, pp. 78-92.

SCHOLZ, C.; ZENTES, J. (Eds.) (2014): Beyond Sustainability, Baden-Baden, Nomos.

## Case Study: Coop/Remei\*

### Overview

This case study provides an example of a cooperation in the context of corporate social responsibility (CSR) and sustainability, including ethical sourcing, sustainable production, support for the local community in developing countries and the success of such initiatives in the international market from the companies *Coop* and *Remei*, both based in Switzerland.

*Coop* is the second largest retail company in Switzerland. Its turnover was 17.3 billion CHF in 2013 (i.e. 14.3 billion EUR).

#### Store Brands







The consumer cooperative *Coop* has more than 2.5 million members. *Coop* has a network of more than 1,400 outlets in Switzerland including convenience stores, small and large supermarkets and hypermarkets. In its stores the company offers a broad assortment of food and non-food products. Besides well-known manufacturer brands, they stock a large variety of socially responsible and sustainable *Coop* store brands – which account for more than half of sales – focussing on organic and fair-trade products in several categories. These are crucial to the company's overall success (see Figure 13.6). This shows the remarkable relevance of social, ethical and environmental factors for successfully conducting business. These are also reflected in the company's *code of conduct*, which is mainly based on transparency, solidarity, fairness and extraordinary environmental and social efforts.

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\* Sources used for this case study include the websites <http://www.coop.ch> and <http://www.remei.ch>, along with information, press releases, annual reports and sustainability reports from Coop and Remei.

## Selected Coop Store Brands

Figure 13.6

	<b>Coop Naturaplan</b> Organically produced food bearing the Bio Suisse bud label, including regional organic specialties. Uncompromisingly organic, uncompromisingly tasty.
	<b>Coop Naturafarm</b> Swiss meat and eggs from animals and poultry reared subject to very rigorous animal husbandry standards, with stalls designed to meet animals' needs and feed that is free of genetically modified plants.
	<b>Coop Oecoplan</b> Environmentally friendly products for home and garden, flowers and plants with Bio Suisse bud logo, timber products with the FSC label, products made from recycled materials, energy-efficient appliances and ecological services.
	<b>Coop Naturaline</b> Textiles made from organically grown cotton and produced according to socially and environmentally responsible methods, and plant-based cosmetic products.
	<b>Pro Montagna</b> Products produced and processed in the Swiss mountain areas – with a donation to the Coop Aid for Mountain Regions scheme.
	<b>Slow Food</b> Traditional, sustainably manufactured specialties for rediscovering the pleasure of real food.

Source: Coop 2013a.

One of *Coop's* most successful store brands is *Naturaline*, introduced in 1993, which focuses on textiles and fashion products sourced from organic cultivation and fair trade, and cosmetics produced from natural raw materials.

In cooperation with the Swiss trading company *Remei*, a supplier of high quality fashionable textiles from fair trade organic cotton – the foundation *bioRe*<sup>®</sup> was established. The aim of the foundation and of this alliance is to help people in developing countries to help themselves. The foundation invests to improve the quality of work and life for farmers and their families in India and Tanzania. The efforts include support for the cultivation of organic cotton as well as social projects to ensure a long-term secure existence within a healthy environment. In doing so, the vision of *bioRe*<sup>®</sup> was to manufacture high quality fashion products in a controlled and transparent way, from organic farming through to the processing of finished products, always satisfying ecological and social requirements based on five principles:

- *Organic*: Promotion of, and conversion to, controlled organic farming and crop rotation.

- *Fairness*: Dignified conditions of work for farmer families and textile workers.
- *Ecology*: No use of toxic chemicals.
- *Transparency*: Full product traceability and control over all stages of the production process.
- *Innovation*: Long-term thinking and environmentally conscious use of resources involving reduction and offsetting of CO<sub>2</sub> emissions.

From the beginning, adherence to these principles has led to a successful partnership in which *Coop* and *Remei* have reached several milestones over the past twenty years (see Figure 13.7). Overall, sustainability in several areas of corporate social responsibility is an integral part of the cooperation and a cornerstone for its long-term success. The sustainable characteristics of *Naturaline's* labelled textiles and fashion products include CSR initiatives throughout the entire supply chain, including organic farming, processing of organic cotton, and the monitoring of these processes. They have also established training centres for local farmers, hospitals and village schools and invested in the social infrastructure.

Figure 13.7

Milestones in the Cooperation between *Coop* and *Remei*

1993	1995	1997	2005	2006	2008	2012	2013	2014
Introduction of <i>Naturaline</i> ecologically and socially responsible textiles	<i>Naturaline</i> made from 100% organic cotton	Launch of the bioRe Foundation by <i>Coop</i> and <i>Remei</i>	Opening of the first bioRe training centre in India	Mobile hospital and opening of the first village school in India	First carbonate dioxide neutral T-shirt collection	Complete assortment carbonate dioxide neutral	Implementation of the Traceability -Tool	New design and first collection by Melanie Wagner

## Sustainable and Social Responsible Sourcing of Merchandise

### BSCI

In 2005, *Coop* committed to the *BSCI Code of Conduct* (Business Social Compliance Initiative). The company has committed itself to auditing its suppliers of non-food products on a regular basis. To meet the high CSR standards of the BSCI as well as the company's high standards for its *Naturaline* products, *Coop* had to cooperate with a strong partner, whose core competence was the sourcing of high-quality textiles and fashion products. Furthermore, this business partner had to fulfil the same high standards with regard to sustainability and socially responsible corporate behaviour as *Coop* had

defined for their own business, especially with regard to the sourcing of merchandise. The use of raw materials associated with destruction of the tropical forests or loss of bio-diversity is prohibited. Packaging must use as little material as possible and should only generate a minimum of waste.

In this context, both *Coop* and *Remei* try social, ethical and environmental aspects for their overall business success into account, without compromising their economic goals. The *bioRe*<sup>®</sup> foundation promises to pay its farmers *fair wages* and provide good working conditions. Farmers have the opportunity to organise themselves into worker unions and they have the right to enjoy equality of opportunity, regardless of race, colour or other characteristics.

### Organic Farming

The cultivation of organic cotton is one of the key elements of *Naturaline* and therefore the cooperation between *Coop* and *Remei*. Cultivation of organic cotton has had a positive impact not only on the environment but also the farmers' social and economic well-being. Traditional cultivation of cotton requires a huge amount of pesticides and fertilisers and genetically modified seeds were often used. In *developing countries* farmers often cannot afford these expensive means of production. Therefore, they have to take out a loan and pay high interest rates (up to 36%). In years with a poor harvest, farmers are often pushed into a spiral of debt.

In *organic farming*, the situation is completely different. Farmers in the *bioRe*<sup>®</sup> foundation cannot use such expensive chemicals. The *bioRe*<sup>®</sup> foundation offers interest-free loans for the acquisition of seeds and agricultural equipment. The stabilisation of the ecosystem and renouncing monocropping has mitigated the negative impact of poor harvests in years with drought or pest infestation. Additionally, the farmers receive a monetary bonus for the organic cotton (up to 15% of the average market price), creating added value. The ban on pesticides not only has a positive impact on the farmers' financial situation; it is also good for their health. Accidents or chronic diseases as a consequence of the use of pesticides and fertilisers will be avoided.

The farmers from the *bioRe*<sup>®</sup> foundation obtain considerable logistic support, and it is further guaranteed that the foundation will purchase their organic cotton. The cultivation of (organic) cotton also requires a huge amount of water. This causes serious problems in regions which are often affected by drought, as water is mainly used for the cultivation of cotton and not as drinking water. To deal with periods of drought, the *bioRe*<sup>®</sup> foundation invests in the construction of drip irrigation systems, which considerably reduce water use for the cultivation of organic cotton. In summary, the princi-

ples and high standards of *Coop* and the *bioRe*<sup>®</sup> foundation for the cultivation of organic cotton offers the farmers the following additional benefits:

- Training and support in organic farming by experts in training centres funded by *Coop*.
- Purchase guarantee for the (organic) cotton harvest.
- An additional bonus of 15% for the (organic) cotton harvest (based on the average market price of the last five years).
- Investments and re-investments of assets in the local infrastructure.

### Processing

Sustainability is also crucial for the processing of organic cotton in the production of *Naturaline* labelled products. The aim of *Coop Naturaline* is to reach the ecologic optimum regarding all parts of the production process. More precisely, this means minimising the impact of the production on the biosphere, to avoid negatively impacting the health of the textile workers as well as consumers.

At the same time, *Naturaline* products must fulfil and exceed consumers' quality expectations. Conventional finishing processes for textiles use a considerable amount of water and chemicals, which causes serious problems for the health of the textile workers and has a strong negative impact on the environment. There are considerable differences in the finishing of *Naturaline* products compared with conventional textile and fashion products. Only selected companies which have committed to *Coop's* high standards of sustainability and socially responsible corporate behaviour can be a part of the *Naturaline* supply chain. To become a part of the *Naturaline* supply chain, these companies have to fulfil several criteria:

- Bleaching solely with oxygen.
- No use of colours containing heavy metals and dyes, and no allergenic dyes used in the finishing of *Naturaline* products.
- Formaldehyde-free processing of *Naturaline* products.
- Double-stage wastewater treatment.

The relevance of reaching the ecologic optimum for *Coop* in the production of *Naturaline* products is also reflected in the company's commitment to the Detox campaign from *Greenpeace*. The Detox campaign focuses on combating water and soil pollution, together with the effects on employee health in production countries. *Coop* is the first Swiss company to sign a declaration of intent with *Greenpeace* with the aim of reducing hazardous chemicals in



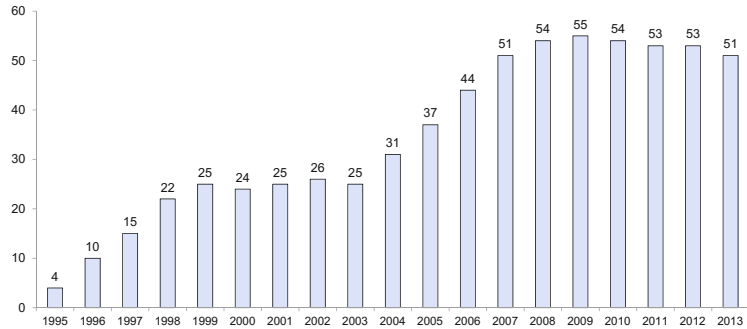
textile production by 2020. By signing the declaration of intent, *Coop* has demonstrated its commitment to sustainability in the area of fair, environmentally friendly textile production and has implemented a number of different measures to reduce chemicals, e.g. passing a textiles and leather guideline to regulate social, environmental and toxicological requirements for farming and processing; requiring business partners to maintain transparent supply chains and to switch to non-hazardous chemicals; establishment of a chemicals specialist team within *Coop* and implementation of controls in supply chains and testing of random samples.

As well as the previously mentioned initiatives, in 2004 *Coop* entered into a commitment with the Swiss Government with the aim of improving its energy efficiency and lowering carbon dioxide (CO<sub>2</sub>) emissions. It became the first retail group in Switzerland to reach concrete CO<sub>2</sub> target agreements with the Swiss Government. In 2008, *Coop* took the pioneering decision to reach CO<sub>2</sub> neutrality by 2023, in all areas in which it could influence these emissions directly as a retail company. Above all, this commitment includes every technically possible and financially justifiable measure to steadily reduce CO<sub>2</sub> emissions for which *Coop* is responsible. Saving energy is a particularly effective way to reduce CO<sub>2</sub> emissions. Hence, *Coop* has also set itself the target of lowering its overall energy consumption wherever possible. CO<sub>2</sub> emissions that can be only avoided at disproportionately high cost or cannot be avoided at all will be offset by funding high-quality projects.

This commitment has also affected *Naturaline* labelled products. For example, 100,000 CO<sub>2</sub> neutral *Naturaline* T-shirts have been produced in India and Tanzania. The CO<sub>2</sub> initiatives of *Coop* and *Remei* are mostly pioneering projects and show what might be possible if both partners include the principles of sustainability and corporate social responsibility as an integral part of their overall business strategy. *Naturaline's* CO<sub>2</sub> neutrality target should be achieved, thanks to efforts to minimise carbon dioxide emissions during the production process. The main aim of this initiative is to sustainably improve working and living conditions for the *bioRe*<sup>®</sup> farmers and their families in India and Tanzania.

Overall, the *Naturaline* labelled products show the potential positive impact of sustainable and socially responsible corporate behaviour. This is not only reflected in the improvements to working and living conditions for the organic cotton farmers and their families and the long-term positive impact on the environment in developing countries, but also in the economic success of *Naturaline* labelled products (see Figure 13.8). However, since 2009 the net sales of *Naturaline* textiles have slightly decreased. One possible explanation is that competing companies have also become aware of consumers' demand for organic fashion products, resulting in higher competition in this segment of the international textile market.

Figure 13.8 Net Sales of Naturaline Textiles (in billion CHF)



Source: Coop 2013b.

## Summary and Outlook

*Naturaline*, Coop's own-label sustainability brand, stands for fair and environmentally friendly textile production and has proven a huge success over the past 20 years. Its supply chains are transparent, the use of chemicals is very tightly regulated, and hazardous chemicals are prohibited in all stages of production. Independent monitoring institutions inspect the various processes regularly.

Through this brand, *Coop* is the world's largest supplier of textiles made from organically grown fair-trade cotton, with sales of more than 50 million CHF in 2013. Today, the *Coop Naturaline* consists out of more than 500 articles.

As well as their economic success, *Coop* and *Remei* have received several awards for their joint *bioRe*<sup>®</sup> initiative. In June 2011, the independent rating agency *oekom research AG* in Munich declared *Coop* the "most sustainable retailer" in the world. This put *Coop* well ahead of its competitors, including the four largest retail chains in the world: *Walmart* (USA), *Carrefour* (France), *Metro* (Germany) and *Tesco* (UK). Such awards support the successful implementation of the companies CSR principles and also affect consumers' perception of the company, positively influencing corporate image and shopping behaviour.

## Questions

1. How can companies generate competitive advantages in international markets by implementing a business strategy which focuses on sustainability and responsibility? Provide reasons for your answer.
2. Take a closer look at Coop's various international CSR initiatives. What are the success factors?
3. How is "Performance based on Sustainability" implemented at the international level by Coop? Provide and explain three examples.

## Hints

1. See Porter and Kramer (2005), Smith (2007), and Schramm-Klein et al. (2014) for further information.
2. See the company's website and the sustainability reports for further information.
3. Again, see the company's website and the sustainability reports for further information.

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